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HERITAGE BANK
OF CENTRAL ILLINOIS

November 10, 2008

Mr. Robert Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW
Washington, DC 20429

RE: RIN No. 3064-AD35
Notice of Proposed Rulemaking – Deposit Insurance Assessments

Dear Mr. Feldman:

On behalf of Heritage Bank of Central Illinois, I am writing to comment on the Federal Deposit Insurance Corporation's proposed rulemaking regarding deposit insurance assessments, published in the Federal Register on October 16, 2008. In part, the rule proposes to impose higher risk based premiums for federally insured depositories that use secured liabilities, including advances from The Federal Home Loan Banks in excess of 15 percent of domestic deposits. While I appreciate the need to restore the Deposit Insurance Fund, I am concerned that the proposal regarding FHLB advances would increase the cost of funding unnecessarily for my financial institution and discourage the prudent use of advances as a reliable source of funding to supplement core deposits. For these and other reasons explained below, I strongly urge the FDIC to revise or delay implementing the proposal.

FHLB advances are a critical source of liquidity for community banks such as ours and have been used safely and effectively for over 75 years. Due to their reliability and easy accessibility, FHLB advances are especially important to smaller community banks that often lack alternative sources of cost- effective funding. These institutions, which comprise the vast bulk of the FHLB System's 8,100 members, depend on advances to fill the funding gap between their core deposits and their loan demands. FHLB advances allow these lenders to ensure that credit remains available to worthy borrowers on affordable terms, a vital role in economic well-being of the local communities they serve.

In times of economic crisis such as these, the liquidity provided by the FHLBs is particularly important to community financial institutions, as demonstrated by the unprecedented surge in the demand for advances from FHLB members. Last year, as the crisis began to emerge, the outstanding amount of FHLB advances increased 37 percent to $875 billion. By June of this year, that figure had jumped to more than $913 billion. Recently, it exceeded $1 trillion. Clearly, FHLB advances are helping to alleviate the current liquidity shortage, which is exactly the role Congress envisioned the FHLBs would perform in such a situation.

I am greatly concerned that the FDIC proposal threatens to substantially contract this crucial source of liquidity at a time when it is most needed. Imposing an additional premium for advance usage will penalize Community Banks that regularly use the FHLBs for their liquidity needs. It will encourage them to either decrease their lending activities in their communities or seek out less reliable, more expensive sources of alternative funding such as brokered deposits. Either way, the cost of funding for borrowers will increase. Such a result is completely contrary to the recent efforts by the Treasury Department, Congress and the Federal Reserve to promote liquidity, encourage lending and bolster confidence in the U.S. banking system.

The rule, as purposed, also threatens to decrease the amount of funding available to support affordable housing and community development activities. By law, a percentage of each FHLBs earning are contributed for programs such as down payments and closing cost assistance, affordable housing projects, and foreclosure prevention. Last year, a total of $318 million was contributed by the FHLBs such programs. If FHLB members are discouraged from using advances, FHLB profits will shrink, as will their contributions to these worthwhile activities. Considering the current housing crisis, any purpose that would decrease funding intended to help American families become homeowners and keep their homes, is ill-timed and should be reconsidered.

In my view, the proposal unfairly characterized the potential risk of advance usage to the Deposit Insurance Fund. Access to FHLB funding has long been view as a source of strength and stability for community banks, making them less likely to fall into receivership. In this way, FHLB funds help protect deposit insurance funds, not threaten them.

I therefore urge the FDIC to revise the proposal rule to exclude FHLB advances from the deposit insurance assessment base. Congress created the FHLBs to provide low cost, reliable funding for community banks. FHLB member institutions should not be penalized for utilizing this source of liquidity as Congress intended, particularly now as the economy is slowing and alternative source of funding are more difficult to access.

Nonetheless, if the FDIC decides to retain an additional premium for FHLB advances in the proposed rule, the proposal should be suspended in light of two recent actions placing added demands on the deposit insurance system. As you know, Congress recently raised the deposit insurance coverage to $250,000 per account. Shortly thereafter, the Treasury Department, FDIC, and Federal Reserve extended deposit insurance coverage to all non-interest bearing transaction deposit accounts. Both actions are scheduled to expire on December 31, 2009. Congress is therefore likely to reconsider the issue of deposit insurance next year to determine whether these actions should be extended, modified or terminated. Until that happens, an accurate assessment of the demand placed on the deposit insurance fund cannot be known. At a minimum, the FDIC should delay any proposal to recapitalize the deposit fund until Congress has acted.

Thank you for your consideration of our views.

Sincerely,

Paul Heuerman
Executive VP

Jackie L. Overstreet

Jackie Overstreet
VP Controller